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SUBJECT: BRAZIL LAUNCHES ITS AMAZON FUND, BUT WHO WILL CONTRIBUTE BEYOND NORWAY?

REF: (A) BRASILIA 750, (B) OSLO 472

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¶12. (SBU) SUMMARY. On August 1, President Lula signed Decree 6527 calling on the Brazilian National Development Bank (BNDES) to create the "Fundo Amazonia" (or Amazon Fund), a new tool to help reduce Brazil's high rate of deforestation. Environment Minister Carlos Minc announced that the government had a target of USD 900 million for the first year, and it seeks to raise as much as USD 21 billion by the year 2011. Brazilian officials stress in the domestic press that they will not brook any foreign interference with this fund. Contributors will receive non-transferable certificates (but not credits or any rights) indicating the reductions in carbon emissions resulting from their contributions. Minc claims Norway is ready to make a major contribution and others (Germany, Sweden, and even the United States) are thinking about following suit. For its part, the Norwegian Embassy says that Norway is negotiating conditions for a series of contributions to the fund of about USD 100 million per year for five years. END SUMMARY

¶13. (SBU) On August 1, Brazilian President Luiz Inacio Lula da Silva issued a decree (No. 6527) creating the "Fundo Amazonia" (or Amazon Fund). At the press event for the launching, Environment Minister Carlos Minc announced that Norway is expected to make the first contribution in September for a total of USD 100 million. Minc announced that the government has a target of USD 900 million for the first year. According to Eduardo Bandeira de Mello, the head of the Environment and Social Responsibilities Department of Brazil's National Development Bank (BNDES), which will manage the new fund, it could receive as much as USD 21 billion by 2011.

THE FUND'S GOAL, ACTIVITIES AND GOVERNANCE

¶14. (SBU) Decree 6527 declares that this new fund has the goal of "preventing, monitoring and combating deforestation and promoting the conservation and sustainable use of forests in the Amazon biome." The fund will support activities in management of forests and protected areas, environmental monitoring, sustainable economic development, zoning and regularization of land titles, conservation and sustainable use of biodiversity, and recovery of degraded forest areas. With one exception, all activities must conform to the guidelines set forth in the government's Plan for a Sustainable Amazon (PAS), which was announced on May 8 (see REFTEL A) and the government's Plan for Prevention and Control of Deforestation in the

Amazon (PPCDAM). The single exception is that up to 20% of the resources can be used for the development of deforestation monitoring systems, including for forests outside the Amazon biome (such as the Atlantic Forest) and even in other tropical rainforest countries outside of Brazil.

¶15. (SBU) Minc told EmbOffs on August 12 that there would not be any disbursals from the fund if the annual rate of deforestation is increasing. The decree, however, speaks vaguely of the Environment Ministry setting annual disbursal levels based on a to-be-developed methodology taking into account both reductions in carbon emissions from deforestation and also the amount of carbon reduction per dollar spent. This new fund incorporates elements of Brazil's proposal at the Conference of the Parties (COP-12) of the UN Framework Convention on Climate Change (UNFCCC) in Nairobi in 2006. That 2006 proposal called for the creation of a voluntary international fund based on positive incentives for reducing deforestation rates, but without imposing on Brazil any obligations to do so and no repercussions for failing to reduce deforestation.

¶16. (SBU) The Amazon Fund decree sets up a Steering Committee composed of representatives of the national government, as well as representatives from (i) those state governments in the Amazon region that have developed a plan to prevent deforestation, and (ii) six designated non-governmental organizations (NGOs), including national associations for industry, farmers, and indigenous groups. The Steering Committee will meet twice a year and will operate on a consensus basis, but in all cases is to be guided by the PAS and the PPCDAM. (NOTE. Reportedly, the fund initially had featured a significant role for international NGOs, but those provisions were stripped out when Minc became Environment Minister in May. END NOTE.)

¶17. (SBU) BNDES will be the Executive Secretary of the fund. It
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will be responsible for day-to-day operations and for development and oversight of projects. The decree allows BNDES to keep 3% of all money raised to cover operational costs.

LOOK, NO STRINGS

¶18. (SBU) The key for the Brazilian government is that contributors will have no say whatsoever in how the funds will be used. Minc exclaimed, "With the Amazon Fund, the donor countries don't have a seat" on the Steering Committee. Minister for Strategic Affairs, Roberto Mangabeira Unger, who oversees the PAS, declared, "The fund is a vehicle by which foreign governments can help support our initiatives without exerting any influence over our national policy." He added, "We are not going to trade sovereignty for money." President Lula said that the fund was not only good for the country's image, but would also allow Brazil to walk with its head held high in international forums.

¶19. (SBU) So, what do donors get for their contributions? The decree provides that donors will receive a certificate showing the reductions in carbon emissions resulting from their contributions. The Environment Ministry will develop a methodology for calculating the quantity of carbon emission reductions, which will be verified by a technical committee. Moreover, BNDES is required to employ an external auditor, though there is no provision for sharing that audited report with contributors.

¶110. (SBU) Under no circumstances, however, will a certificate be transferable nor will it generate any rights or credits. COMMENT. This comports with Brazil's long-standing opposition to granting carbon credits for reduced emissions from deforestation. END COMMENT. Amb. Everton Vargas of the Ministry of External Relations, the lead official on Brazil's climate change team, repeatedly has stressed that Brazil opposes the use of credits in connection with forests because it does not want to create a means by which developed countries can use Brazil's forests to avoid having to reduce their greenhouse gas emissions. Moreover, he underscores that Brazil will not accept any restrictions that could impede their development plans for the Amazon and carbon credits for tracts of forests could be viewed as denying Brazil the right to develop those

lands.

NORWAY LIKELY TO CONTRIBUTE WITH SOME STRINGS

¶11. (SBU) At a meeting on August 22, the Norwegian Embassy DCM informed EmbOffs that Norway is negotiating with Brazilian officials making a series of contributions to the fund over the next five years (REFTEL B). The amount hasn't been specified; however, he acknowledged that discussions were revolving about a USD 100 million contribution in the first year and similar amounts for the next four years. An announcement is expected during the Norwegian Prime Minister's visit to Brazil in September. Norway has a critical requirement: the funds need to be used in a manner that would allow Norway to qualify the contribution under the OECD Development Assistance Committee (DAC) rules on assistance. The DCM explained that the Norwegian government was under domestic pressure to provide qualified aid equal to at least one percent of Gross Domestic Product (GDP). He said Norway hadn't met the 1% goal in recent years and so the government wanted to establish a program for Brazil and a handful of developing countries with large forests to boost its qualified aid levels.

¶12. (SBU) COMMENT. Coincidentally, the Norwegian DCM said the Prime Minister's top priority for his upcoming visit to Brazil is to strengthen ties in the area of exploring and developing the newly discovered off-shore oil and gas reserves. He explained that Norway had many companies that would be able to supply a significant quantity of goods and services to Brazil in this area. Further, the Norwegian government had the technical advisors who could help a country follow the "Norwegian Model" in developing its oil sector. While there is no talk of a direct linkage between contributions to the fund and gaining oil and gas contracts (which would be inconsistent with ODA rules), the contributions could well have a positive impact. END COMMENT.

¶13. (SBU) Minc has urged the USG to contribute to the fund. Further, he claims to be in discussions with Germany, Switzerland and some private corporations for contributions. The British DCM reports that the United Kingdom would like to help Brazil in the area of reducing deforestation, but this Amazon Fund with "no

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strings" and "no supervision" is not attractive.

SERIOUS OUTSTANDING TECHNICAL QUESTIONS

¶14. (SBU) The Amazon Fund still needs to overcome some significant technical hurdles. BNDES has limited experience with environmental projects and a small environmental staff. At the same time, it has a track record of loans to a variety of projects in the Amazon region that have been drivers of deforestation - like ranching and slaughterhouse industries. It is unclear how soon BNDES would be able to receive contributions and then develop worthwhile projects.

¶15. (SBU) What could be even more challenging for the fund is that under existing law contributions will be subject to a tax of about 30%. NOTE. Norway has made clear that it will not make any contribution to the fund unless the tax issue is satisfactorily resolved. END NOTE. BNDES's lawyers are working to find a way to avoid taxation of contributions, but to date has not solved this conundrum. On August 1, the President submitted a Provisional Measure (No. 438), which if approved by the Congress, would grant a tax exemption for the Amazon Fund.

COMMENT

¶16. (SBU) The Brazilian government believes that with the Amazon Fund it has created a mechanism for the international community to provide financial support to address the serious ongoing deforestation problem in Brazil without going through international financial institutions. It meets the Lula Administration's two criteria: (1) no outside interference in the government's forest management policy, and (2) no credits under the UNFCCC or other market scheme. The question is which country, other than Norway, will contribute.

¶16. (SBU) In addition, the fund may be encountering domestic troubles. What may be a particularly telling warning signal for the fund is that not one of the governors or environmental secretaries from the nine states in the Amazon region was present at the August 1 launching of the Amazon Fund. The largest state in the region, Amazonas, has its own, state-level mechanism to combat deforestation and does not appear to be supportive of the competing Amazon Fund. This domestic disarray at a minimum sows confusion among potential contributors interested in supporting Amazon forest conservation.

END COMMENT.

SOBEL